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LUGAR

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TAGS: [PREL](#) [PGOV](#) [ENRG](#) [MARR](#) [AJ](#) [RS](#) [IR](#)
SUBJECT: AZERBAIJAN PRESIDENT TELLS SENATOR LUGAR HE WANTS
A SIGN SOON ON TURKMEN GAS

Classified By: Charge Don Lu, per 1.4 (b,d)

¶1. (C) Summary: In a January 14 meeting with Senator Lugar, President Aliyev said that the Turkmen President is moving too slowly on trans-Caspian gas discussions while at the same time continuing to sign deals with Russia. Aliyev said that he needs a political signal in the next six months to know whether "they're with us or not." The President also asked about the possibility of purchasing military equipment from the U.S. or other NATO countries. Senator Lugar raised the issue of the imprisoned journalists and the importance of an open and transparent government during the run-up to the presidential elections. He also mentioned that the accounting of oil revenues should be equally transparent to avoid the appearance of misappropriation of funds. End Summary.

FRUSTRATION WITH THE TURKMEN

¶2. (C) Aliyev expressed concern that Central Asian countries were not showing more support for developing energy projects with Azerbaijan and that it was time for Turkmenistan and Kazakhstan to clarify their position regarding transit of gas across the Caspian and through Azerbaijan. The President was particularly critical of Turkmen President Berdymuhamedov, who "tells us one thing, then signs a deal with Putin." He told Senator Lugar that Azerbaijan needed a political signal from the Turkmen in the next six months to know whether "they're with us or not." Aliyev said that he has offered the Turkmen joint ownership of the disputed Sardar-Kapaz Oil/Gas Field and is willing to accept a minority share to move the discussion forward. He called for U.S. assistance to encourage these countries "to push from both sides" on the issue of trans-Caspian energy flows.

¶3. (C) While Aliyev mentioned that "the transit of Central Asian gas and oil is not essential for Azerbaijan" because of its vast oil revenues, he felt the producers should want to use the option of transportation to Europe through Azerbaijan as much as Azerbaijan does as it is directly in their interest. He said that Turkmenistan in particular may have "good intentions and cautious moves, but (because of Russian pressure) there is no time for that." The President noted

that the price paid for Turkmen gas by Gazprom has risen from \$65 per thousand cubic meters (tcm) to \$150/tcm because the Turkmen now have the option of an alternative route through the South Caucasus Pipeline, even if they are not currently pursuing it. He also was concerned that some NATO members such as Bulgaria, Greece and Hungary were signing energy development agreements with Russia that undermined efforts to move gas through the South Caucasus.

REQUEST TO BUY U.S. OR NATO MILITARY EQUIPMENT

¶4. (C) Aliyev mentioned that GOAJ had budgeted \$1.2 billion in military expenditures in 2008 and was interested in expanding security cooperation with the United States. He suggested one way was to purchase military equipment from the U.S. or other NATO countries (read Turkey) to promote interoperability and NATO standards. He stated his interest in purchasing aircraft and other weapons as a way to assist with Azerbaijan,s efforts to integrate into NATO. Aliyev then conceded that this may not be possible due to the ongoing Nagorno Karabagh conflict. He later acknowledged that the purchase of maritime military equipment might be a logical place to begin as this would not raise concerns about possible offensive use against Armenia.

RECENT ENERGY DEVELOPMENTS

¶5. (C) Aliyev reeled off statistics about the energy industry in Azerbaijan and boasted of its growing regional importance. Aliyev stated that recent oil and gas discoveries have revealed that GOAJ has "enough reserves (for domestic production and significant exports) to last for 100 years, maybe more," and "will be a gas provider to the EU for

100 years." He reported that Azerbaijan has 1.2 trillion cubic meters of proven gas reserves in the Shah Deniz Field alone. With the additional reserves in the Azerbaijan Chirag Gunashli (ACG) Field (i.e., "ACG deep gas") and the Umid Field, total proven reserves top 2 trillion cubic meters. In 2008, GOAJ expects to increase domestic oil production by 100 percent and export 7 billion cubic meters of gas by the end of the year. He expects gas production to be 27 billion cubic meters, with 16-17 billion cubic meters available for domestic use and export and the rest for reinjection into the ACG Field. Aliyev also highlighted Azerbaijan,s success in delivering gas to the EU with their shipments to Greece via Turkey. According to the President, SOCAR's plans development of substantial gas reserves in the Umid offshore field so that they have enough to satisfy EU demand.

INCREASED ROLE OF AZERBAIJANI GAS PRODUCTION

¶6. (C) Aliyev stated that SOCAR and other domestic producers would play a larger role in oil and gas production in Azerbaijan. Aliyev cited problems with BP and the importance of energy independence to national security as key factors in this decision. Aliyev also mentioned that Azerbaijan is now transforming into an energy producing and transit country with the technical ability to explore and extract oil and gas themselves. In this regard, he mentioned his decision to have SOCAR develop "ACG deep gas" on its own, instead of relying on BP to manage the project. Aliyev expressed his confidence that Azerbaijan was now able to extract this deep gas and no longer needed international assistance. Aliyev also repeated claims made previously that BP had failed to meet several obligations to other countries and that BP had been caught withholding a portion of oil revenues owed to the GOAJ for the last two quarters of 2007.

GOAJ INVOLVEMENT IN GEORGIAN PRESIDENTIAL ELECTIONS

¶7. (C) In his discussion about GOAJ,s close relations with Georgia, Aliyev also commented at length on GOAJ involvement in the recent presidential elections in Georgia. He

suggested that he affected the outcome of the recent Georgian presidential elections by encouraging ethnic Azeribaijanis living in Georgia to vote for Saakashvili. Aliyev stated that because of his direct involvement, 90 percent of Georgian Azeris voted for Saakashvili and that Saakashvili said he "won,t forget Azerbaijan,s assistance now and in the past." Without this support "the result may have been different." Aliyev highlighted further GOAJ involvement in the Georgian election when the GOAJ discreetly provided gas to Georgia at a lower than market rate. Finally he pointed to GOAJ assistance to Georgia last year during the winter energy crisis when Azerbaijan provided gas at a very competitive price even as Azerbaijan itself faced shortages. "Unlike other countries, we don't take advantage of our neighbor's difficulties."

18. (C) COMMENT: President Aliyev's comments about SOCAR developing ACG deep gas itself may have made with the full knowledge the comments would get back to BP, in the hopes of persuading BP to be more accommodating in the current dispute over Rate of Return calculation for the ACG PSA. From a technical viewpoint SOCAR is quite unable to tackle the massive challenge that ACG deep gas presents. Legally, the BP-led ACG Consortium has "right of first refusal" on any attempts to develop ACG deep gas, and it is unclear that it would support a SOCAR bid. Far more likely is for SOCAR to "take the lead" on ACG deep gas development, subcontracting all the real work to some or all members of the ACG Consortium.
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